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RSL



ANNUAL REPORT 1970



RIVTOW STRAITS LIMITED

Head Office: 2215 Commissioner Street
Vancouver 6, B. C.
Canada

Phone: Area Code 604, 255-1133

B. C. Marine Shipbuilders Limited

Ft. of Victoria Drive, North
Vancouver 6, B. C.
Phone: 255-3121

Offices and Bases:

Harrison Lake
Phone: 796-2626

Hope
Phone: 869-5485

Kitimat
Phone: 632-3363

Masset
Phone: 626-3673

Prince Rupert
Phone: 627-1331

Terrace
Phone: 635-5521

Stewart
Phone: 636-2737

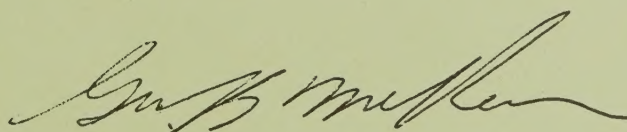
MESSAGE FROM THE CHAIRMAN OF THE BOARD

This is the first financial report published since the inception of RivTow Straits Limited. The brief period of operation from November 16 to December 31, 1970 is insufficient to reflect the benefits your Board of Directors expect from the combining of the predecessor companies.

The formation of RivTow Straits Limited is expected to bring about savings in various areas, such as management, general overhead and purchasing, as well as fuller and better utilization of operating personnel and equipment. Your Directors are unanimous in their view that the above must be accomplished if we are to remain competitive and maintain our position within the Towboat Industry.

During 1970 labour strife, decreased housing starts, increased unemployment, the revaluation of the Canadian dollar and uncertainty over future taxing policies of the Federal Government have seriously affected the economic well being of our customers. This has been reflected in a curtailment of our services to our customers during this past year. It is to be hoped, during 1971, that conditions may improve to what we would consider a normal year.

Your Board of Directors would like to express their appreciation to all employees for their co-operation and loyalty during the period of adjustment in integrating the various companies in the merger group. We are also greatly encouraged by and gratefully acknowledge our customers' support and confidence in the new Company.

A handwritten signature in dark ink, appearing to read "George B. McKeen", with a long, sweeping horizontal line extending to the right.

George B. McKeen

Chairman of the Board

REPORT FROM THE PRESIDENT

Marine operations in British Columbia are basically profitable in the Spring and Summer months, but inevitably operating results in the Fall and Winter months are adverse. Thus our RSL report covers a portion of the year that is a loss period in even the best of years. . .and 1970 could certainly not be considered as a "best year" for the marine industry and for most other industries. (Operations of the predecessor Straits and RivTow companies in the earlier part of 1970 were also severely depressed by the first strike of tugboat personnel in over thirty years).

The outlook for 1971 is average with the first quarter being the slow winter period but somewhat improved by the dramatic salvage of the freighter "Antillian Star" by our "Gibraltar Straits" off the West Coast of the Queen Charlotte Islands. The salvage award for RSL efforts will be settled by a Committee in London; in the interim period, owners of the cargo and vessel have posted a \$300,000 bond to protect RSL for collection of the ultimate award.

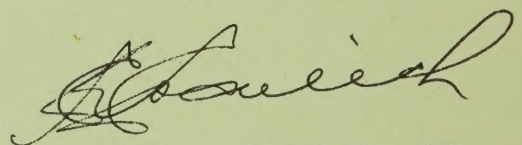
We are making significant changes in the company to adapt to the conditions under which we now (and in the foreseeable future) will operate by modernizing the equipment and broadening the operating base.

As part of the equipment modernization program, two new tugs have been placed in service in June 1971 — — The HECATE STRAITS (1400 bhp) and the MERCER STRAITS (1800 bhp). These efficient new units will replace obsolete and less economic vessels.

As part of broadening our base, your company has acquired Armour Salvage and Towing (1949) Ltd. and Rupert Cement Products Ltd. in Prince Rupert. The integration of these companies into our Northern Division will assist our activities and growth in the Northern segment of RSL operations.

In order that we may accomplish updating of equipment and a sound financial base for the company, we have concluded in early 1971 a refinancing for RSL with the Royal Bank of Canada. A segment of this financing will be utilized for the aforementioned acquisitions and for working capital.

The merger of the two groups has brought together a management team that is able and experienced to meet the challenge that the new company presents for the future. You may be assured that every effort is being made to make RSL an efficient and profitable operation.



Cecil S. Cosulich
President

Thorne,
Gunn,
Helliwell
& Christenson

HELLIWELL, MACLACHLAN & CO.
GUNN ROBERTS & CO.

CHARTERED ACCOUNTANTS

VANCOUVER PARTNERS

| | | |
|------------------|----------------|----------------|
| W. R. C. PATRICK | D. J. KELSEY | G. M. MILLER |
| J. M. MOYNES | B. FAHY | W. G. MITCHELL |
| H. B. SMITH | R. E. BURRELL | G. SPARE |
| R. G. STEWART | J. C. MCKINNEY | K. S. GUNNING |
| D. G. USHER | | J. G. HALPIN |

CONSULTANTS

J. L. HELLIWELL H. H. ADAIR

AUDITORS' REPORT

To the Shareholders of

RivTow Straits Limited

We have examined the consolidated balance sheet of RivTow Straits Limited and subsidiary companies as at December 31, 1970, and the consolidated statements of income and source and application of funds for the period from date of commencement of operations on November 16 to December 31, 1970. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the period then ended, in accordance with generally accepted accounting principles.

Thorne, Gunn, Helliwell & Christenson.

May 7, 1971

Chartered Accountants

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS

| | | |
|---|----------------|--------------|
| Cash | \$ 149,189 | |
| Short-term deposits and investments, at cost which approximates market value | 651,496 | |
| Deposits with the Minister of Industry | 211,538 | |
| Accounts receivable | 2,686,308 | |
| Income taxes recoverable | 18,685 | |
| Inventories | | |
| Materials and supplies, at lower of cost and replacement cost | 213,369 | |
| Work in progress, at lower of cost and net realizable value | 17,370 | |
| Prepaid expenses | <u>423,063</u> | \$ 4,371,018 |

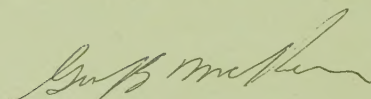
INVESTMENTS AND NON-CURRENT RECEIVABLES

| | | |
|--|--------------|---------|
| Notes, mortgages and accounts receivable, net of current portion included in accounts receivable | 177,053 | |
| Advances to associated companies, non- current portion | 155,519 | |
| Other investments, at cost, and non-current receivables | <u>9,182</u> | 341,754 |

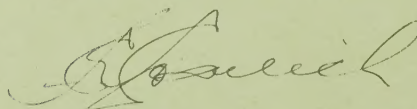
FIXED ASSETS (notes 2, 6 and 7)

| | | |
|-------------------------------------|------------------|---------------------|
| Vessels, plant and equipment | 16,148,853 | |
| Less accumulated depreciation | <u>197,981</u> | |
| | 15,950,872 | |
| Vessels under construction | 703,901 | |
| Land, including leasehold interests | <u>4,018,310</u> | 20,673,083 |
| | | <u>\$25,385,855</u> |

Approved by the Board



Director



Director

ITS LIMITED

British Columbia on July 14, 1970)

y companies

EET AT DECEMBER 31, 1970

LIABILITIES

CURRENT LIABILITIES

| | |
|--|------------------|
| Bank demand loans (note 3) | \$ 1,561,500 |
| Accounts payable and accrued liabilities | 3,677,418 |
| Advances from associated companies | 92,430 |
| Principal instalments due within one year on long-term debt | <u>1,700,771</u> |

\$ 7,032,119

LONG-TERM DEBT (note 4)

6,248,183

DEFERRED INCOME TAXES (note 5)

375,249

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 2)

| | |
|--|-----------|
| Authorized | |
| 3,000,000 Common shares, par value \$1 | |
| Issued | |
| 2,000,000 Shares | 2,000,000 |

CONTRIBUTED SURPLUS

| | |
|-----------------------------------|------------|
| Premium on issue of common shares | 10,000,000 |
|-----------------------------------|------------|

DEFICIT, representing the loss for the period
November 16 - December 31, 1970

(269,696)

11,730,304

\$25,385,855

COMMITMENTS (note 6)

RIVTOW STRAITS LIMITED
and subsidiary companies
CONSOLIDATED STATEMENT OF INCOME
FROM COMMENCEMENT OF OPERATIONS ON NOVEMBER 16 TO DECEMBER 31, 1970

| | | |
|---|-----------------|------------------|
| Loss before items shown separately below | \$ 71,634 | |
| Income from short-term deposits and investments | <u>7,440</u> | \$ 64,194 |
| Depreciation (note 7) | 197,981 | |
| Directors' remuneration | 19,430 | |
| Interest on long-term debt | <u>88,205</u> | <u>305,616</u> |
| Loss before income taxes | | 369,810 |
| Income taxes (reduction) (note 5) | | |
| Current | (917) | |
| Deferred | <u>(99,197)</u> | <u>(100,114)</u> |
| LOSS FOR THE PERIOD | | <u>\$269,696</u> |
| LOSS PER SHARE | | <u>\$.13</u> |

RIVTOW STRAITS LIMITED
and subsidiary companies
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FROM COMMENCEMENT OF OPERATIONS ON NOVEMBER 16 TO DECEMBER 31, 1970

| | | |
|--|----------------|--------------------|
| SOURCE OF FUNDS | | Nil |
| APPLICATION OF FUNDS | | |
| Operations | | |
| Loss for the period | \$ 269,696 | |
| Items not involving current funds | | |
| Depreciation | (197,981) | |
| Reduction in deferred income taxes | <u>99,197</u> | \$ 170,912 |
| Purchases of fixed assets | 283,974 | |
| Less related new long-term debt | <u>174,504</u> | 109,470 |
| Other assets | | 9,967 |
| Long-term debt paid or currently maturing | | <u>162,520</u> |
| INCREASE IN WORKING CAPITAL DEFICIENCY | | 452,869 |
| WORKING CAPITAL DEFICIENCY AT BEGINNING OF PERIOD, representing the combined working capital deficiency of the subsidiary companies at November 15, 1970 | | <u>2,208,232</u> |
| WORKING CAPITAL DEFICIENCY AT END OF PERIOD | | <u>\$2,661,101</u> |

RIVTOW STRAITS LIMITED
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 1970

1. BASIS OF CONSOLIDATION

RivTow Straits Limited was incorporated as a public company under the laws of British Columbia on July 14, 1970. By a "Scheme of Arrangement" under the B. C. Companies Act, RivTow Straits Limited acquired all the outstanding shares of Straits Towing Limited and RivTow Marine Ltd. with effect from November 16, 1970. Accordingly, these financial statements include the operating results of Straits Towing Limited and RivTow Marine Ltd. and their respective subsidiaries from November 16, 1970. In addition, the consolidated financial statements of Straits Tug Limited, not a subsidiary, have been included because Straits Towing Limited holds an option to acquire all of its outstanding shares for a nominal amount.

2. FIXED ASSETS

The initial stated shareholders' equity of \$12,000,000, represented by the 2,000,000 shares in RivTow Straits Limited issued at \$6 each, reflected current appraisal values of the principal fixed assets owned by the companies. The balance sheet values of most of the lands were arrived at by appraisers of Macaulay, Nicolls, Maitland & Co. Ltd. in March and April, 1970; the values of the remaining properties, relatively minor amounts, were determined by officials of the companies. Vessels are carried at amounts approximating appraisals in April, 1970 by J.P. Brown, Principal Surveyor, Marine Surveyors of Western Canada, less allowances for the fact that such values exceed amounts recognized by the tax authorities for purposes of determining future write-offs; plant and equipment other than vessels are carried at a nominal amount. All additions subsequent to the dates of appraisals are stated at cost.

The fixed asset accounts of the subsidiary companies were restated to reflect the appraisal values, resulting in increases in the carrying value of vessels of \$3,207,611 and of land of \$2,107,984.

The leases are of varying terms up to 20 years. Customarily, they are extended upon application by the lessee and consequently are considered to have a "perpetual life".

3. BANK DEMAND LOANS

The bank demand loans are secured by:

Assignment of accounts receivable of RivTow Marine Ltd.

Marine mortgages on specified vessels

Debenture creating a floating charge on the assets of RivTow Marine Ltd.

This floating charge ranks pari passu with a similar floating charge created by the issue of a debenture to the Industrial Development Bank, included in Long-term debt.

4. LONG-TERM DEBT

Long-term debt at December 31, 1970 consists of the following:

| | <u>Total</u> | <u>Due within one year</u> |
|---|--------------------|--------------------------------|
| RivTow Marine Ltd. | | |
| 10% Industrial Development Bank loan, due 1977, secured by real property and marine mortgages and a debenture creating a floating charge on the assets of the company | \$3,420,000 | \$ 360,000 |
| 8% Roynat Ltd. loan, due 1975, secured by marine mortgages | 265,000 | 60,000 |
| Other notes, mortgages and agreements payable | 1,045,734 | 628,514 |
| Straits Towing Limited | | |
| First mortgage sinking fund bonds payable in U.S. funds, stated on a basis of U.S. dollar at premium of 2% | | |
| 4.60% Series "A" bonds, due 1974 (U.S. \$1,000,000) | 1,020,000 | 102,000 |
| 5.75% Series "B" bonds, due 1977 (U.S. \$700,000) | 714,000 | 102,000 |
| Bank demand loans payable monthly, secured by marine mortgages | <u>1,484,220</u> | <u>448,257</u> |
| | \$7,948,954 | <u>\$1,700,771</u> |
| Less principal instalments due within one year included in current liabilities | <u>1,700,771</u> | |
| | <u>\$6,248,183</u> | |

Principal instalments due within each of the next five years are as follows:

| | |
|------|-------------|
| 1971 | \$1,700,771 |
| 1972 | 1,362,080 |
| 1973 | 1,112,330 |
| 1974 | 1,642,460 |
| 1975 | 887,399 |

LONG-TERM DEBT (Cont'd)

Subsequent to December 31, 1970 the company has arranged new bank borrowing to provide funds for retirement of certain of its present debts and to provide additional working capital. The effect of the new financing will be to increase the long-term debt of the company by \$1,859,850 and reduce the working capital deficiency to approximately \$1,000,000.

5. INCOME TAXES

The companies have provided for income taxes currently payable and also for income taxes deferred by claiming capital cost allowances in excess of depreciation recorded in the accounts. During the period ended December 31, 1970 depreciation recorded in the accounts exceeded capital cost allowances claimed with the result that accumulated deferred income taxes of the subsidiaries were reduced by \$99,197.

There are potential income tax reductions arising from losses aggregating approximately \$150,000 in certain of the companies; there are also potential reductions of deferred income taxes if proceeds of disposal of certain vessels are utilized in the manner provided by certain incentive measures in the income tax law.

The reductions, if any, in income taxes from these items will be taken into income as they are realized.

6. COMMITMENTS

- a) At December 31, 1970 two new tugs were being constructed for the company. Contractors' progress billings to December 31, 1970, net of subsidies, have been reflected in the balance sheet as "Vessels under construction". The estimated cost of completing these vessels, net of subsidies, is approximately \$586,000. Funds for financing completion of the vessels are to be provided by further term bank borrowings.
- b) The company is committed to lodge a deposit of approximately \$512,000 with the Department of Industry by June 30, 1971.
- c) The company is committed under long-term charter parties to the following charter fees:

| | |
|------|-----------|
| 1971 | \$102,588 |
| 1972 | 102,588 |
| 1973 | 81,504 |
| 1974 | 39,855 |

7. DEPRECIATION POLICIES

The company has calculated its provision for depreciation of vessels by dividing the net undepreciated book values of vessels by the estimated number of years in the residual asset lives. Gains and losses are not reflected in the statement of income for the year of disposal but are reflected in the net undepreciated book values and consequently modify future depreciation provisions; there were no significant disposals of vessels during the period from November 16 to December 31, 1970.

Thorne,
Gunn,
Helliwell
& Christenson

HELLIWELL, MACLACHLAN & CO.
GUNN ROBERTS & CO.

CHARTERED ACCOUNTANTS

VANCOUVER PARTNERS

| | | |
|------------------|----------------|----------------|
| W. R. C. PATRICK | D. J. KELSEY | G. M. MILLER |
| J. M. MOYNES | B. FAHY | W. G. MITCHELL |
| H. B. SMITH | R. E. BURRELL | G. SPARE |
| R. G. STEWART | J. C. MCKINNEY | K. S. GUNNING |
| D. G. USHER | | J. G. HALPIN |

CONSULTANTS

J. L. HELLIWELL H. H. ADAIR

AUDITORS' REPORT

To the Shareholders of

RivTow Straits Limited

We have examined the supplementary combined statements of income and source and application of funds of RivTow Straits Limited and subsidiary companies for the year ended December 31, 1970, which are to be read in conjunction with the consolidated financial statements of RivTow Straits Limited. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the combined results of the operations of the companies and the source and application of their funds for the year ended December 31, 1970, in accordance with generally accepted accounting principles applied among the companies consistently except for the change in the basis of determining depreciation from November 16, 1970 mentioned in note 1, which was necessitated by the circumstances of the merger.

Thorne, Gunn, Helliwell & Christenson

May 7, 1971

Chartered Accountants

RIVTOW STRAITS LIMITED
and subsidiary companies

COMBINED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1970 (note)

| | | |
|--|------------------|-------------------|
| Income before items shown separately below | | \$1,020,667 |
| Income from short-term deposits and investments | | <u>59,521</u> |
| | | 1,080,188 |
| Depreciation | \$1,169,699 | |
| Directors' remuneration | 116,357 | |
| Interest on long-term debt | <u>655,729</u> | <u>1,941,785</u> |
| Loss before income taxes and extraordinary items | | 861,597 |
| Income taxes (reduction) | | |
| Current | (10,222) | |
| Deferred | <u>(276,135)</u> | <u>(286,357)</u> |
| Loss before extraordinary items | | 575,240 |
| Extraordinary charges or (credits) | | |
| Deferred income taxes related to taxable inter-company dividends | 71,133 | |
| Deferred income taxes related to vessel disposals | (7,036) | |
| Recovery on 1966 accident claim | <u>(23,539)</u> | <u>40,558</u> |
| LOSS FOR THE YEAR | | <u>\$ 615,798</u> |

RIVTOW STRAITS LIMITED
and subsidiary companies

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
YEAR ENDED DECEMBER 31, 1970 (note)

SOURCE OF FUNDS

| | | |
|--|------------------|-------------------|
| Operations | | |
| (Loss) before extraordinary items | \$ (575,240) | |
| Items not involving current funds | | |
| Depreciation | 1,169,699 | |
| Deferred income taxes | <u>(276,135)</u> | <u>\$ 318,324</u> |
| Recovery on 1966 accident claim | | 23,539 |
| Proceeds from disposal of fixed assets | | 47,773 |
| Other | | <u>9,750</u> |
| | | <u>399,386</u> |

APPLICATION OF FUNDS

| | | |
|---|--------------------|------------------|
| Purchases of fixed assets | 3,653,113 | |
| Less | | |
| Related new long-term borrowings | (1,588,047) | |
| Shares issued for purchases | <u>(1,026,647)</u> | <u>1,038,419</u> |
| Other assets | | 127,026 |
| Long-term debt paid or currently maturing | | 1,539,677 |
| Dividends | | <u>82,749</u> |
| | | <u>2,787,871</u> |

DECREASE IN WORKING CAPITAL

\$2,388,485

RIVTOW STRAITS LIMITED
and subsidiary companies

NOTE TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1970

These financial statements, which are presented as supplementary information for the shareholders of RivTow Straits Limited, combine the figures for (1) Straits Towing Limited and its subsidiaries and Straits Tug Limited, an optioned company, (the "Straits Group") from December 31, 1969 to November 15, 1970, (2) RivTow Marine Ltd. and its subsidiaries (the "RivTow Group") for the same period, and (3) RivTow Straits Limited and its subsidiaries (comprising the "Straits Group" and the "RivTow Group") for the period from November 16, 1970 to December 31, 1970.

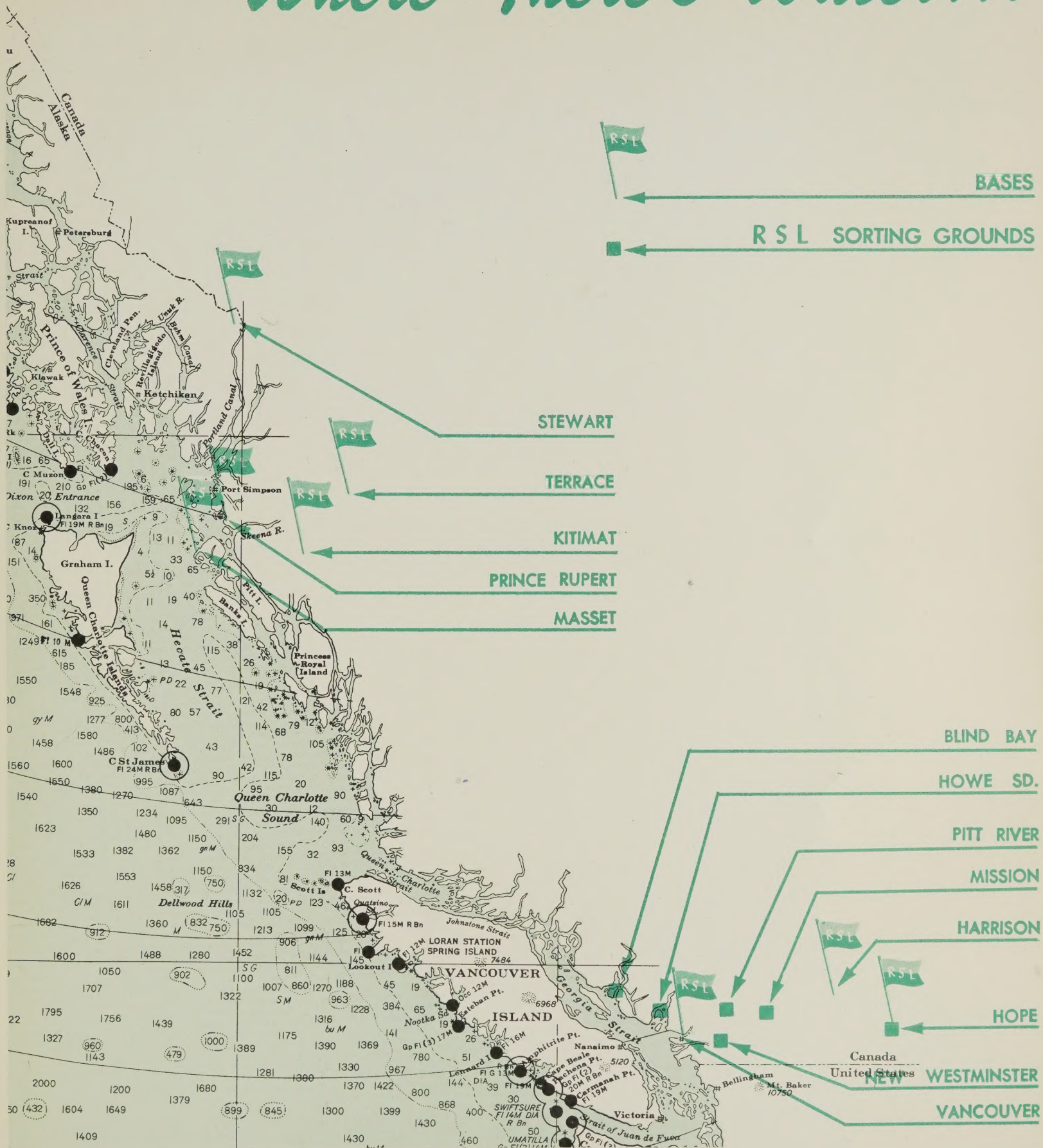
The accounting practices of the two groups of companies have been put on a consistent basis in combining the figures for these financial statements. From November 16, 1970 depreciation charges reflect the revaluation of the fixed assets for accounting purposes on that date. Accordingly, the charges for depreciation for the period from November 16 to December 31, 1970 were in excess (by an amount of \$40,095) of what they would have been if they had been calculated on the fixed asset values carried in the accounts of the "Straits Group" and the "RivTow Group".

Because the previous accounting practices of the companies have been modified to achieve consistency, these combined financial statements are not comparable with those for previous periods for the "Straits Group" and the "RivTow Group".

Transfer Agent National Trust Company Limited
Vancouver, B.C.

Auditors Thorne, Gunn, Helliwell & Christenson
Chartered Accountants

Where There's Water...



RIVTOW STRAITS LIMITED

